

reis (\$205,000,000) and the government paper money reached 200,000,000 milreis (\$109,000,000).¹ This was the situation early in 1893, ^{DUt} ^{tae} suspension of specie payments as the result of a new civil war led to repeated new issues of paper money and a constantly growing premium on gold. The pledge to retire paper money and bank-notes in 1893 was partially kept, only to be followed by new issues larger than those withdrawn.

The difficulties of the government constantly grew worse, because it had not only sanctioned extravagance at home, but had a large gold debt abroad, upon which the charges steadily mounted in currency when converted into gold at current rates of exchange. Annual interest charges of about £4,000,000 when converted at parity in 1889 called for 35,335,000 milreis; when converted at 5f pence in 1898 they called for 165,300,000 milreis.² Even at home prices of everything bought by the government were rising, and for the enormous deficits of the budget there was no remedy but drastic increase of taxation, national bankruptcy, or a radical change of policy. The latter alternative was finally adopted in 1898, with the negotiation of the Funding Loan with the Rothschilds of London. Under this contract the federal government was allowed to suspend for three years, until June 30, 1901, payment of interest on the foreign debt, and on the interior gold loan of 1879, and the gold railway guarantees. The holders of the coupons of these obligations received gold funding bonds bearing interest at five per cent., which might be issued to an aggregate amount of £10,000,000. These bonds were secured by the customs revenues of Rio de Janeiro. The government agreed to deposit in the three banks of Rio paper money to the amount of new securities issued, at the rate of 18 pence to the milreis, which was to be retired from circulation and destroyed or to be employed in buying drafts on London in favor of the Rothschilds, to constitute a fund for resuming payment of interest on the debt. At the same time the National Bank

¹ Lévy, 282-84.

² Lyou, *Questions Monliaires Contemporaines*, 799.